

HOUSING MARKET OUTLOOK

St. John's CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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Housing Market Expected to Remain Stable

Low mortgage rates, income growth, full-time employment gains and positive migration will support the local housing market for the remainder of this year and next. Steady house prices and an adequate

supply of new and existing homes will see housing activity remain stable over the forecast period.

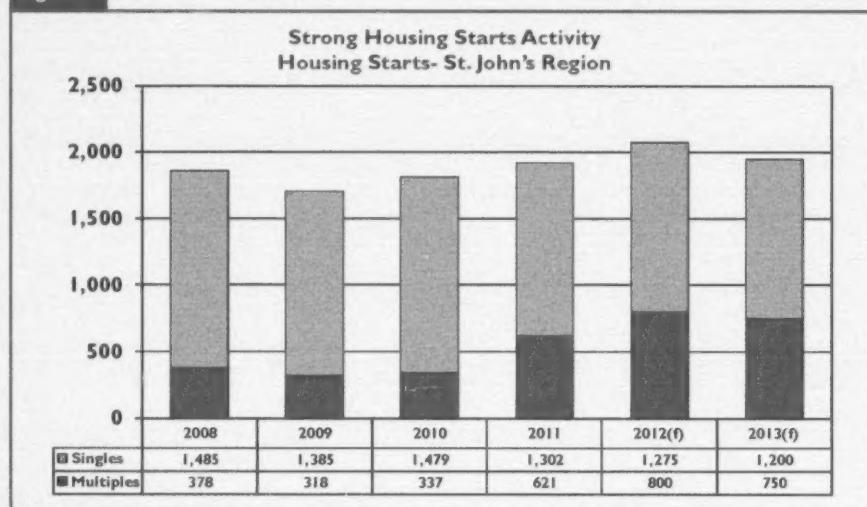
Economic Overview

Newfoundland and Labrador will have the strongest economic performance in Atlantic Canada in 2012 and 2013. Although some projects that were significant to recent economic growth are going to be winding down over the forecast period, there are a

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Figure 1



Source and Forecast: CMHC

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number of new large construction projects getting ready to begin that will be supportive of growth. Additionally, there are other larger projects that are still in the pre-construction stage.

The manufacturing sector is also poised for growth as a result of a new nickel processing facility and increased iron ore production. As well, the offshore oil and gas industry continues to benefit from a number of active projects that will continue over the forecast period, including the Hibernia South and Hebron oil fields. The province is also continuing to benefit from increased oil and mining royalties.

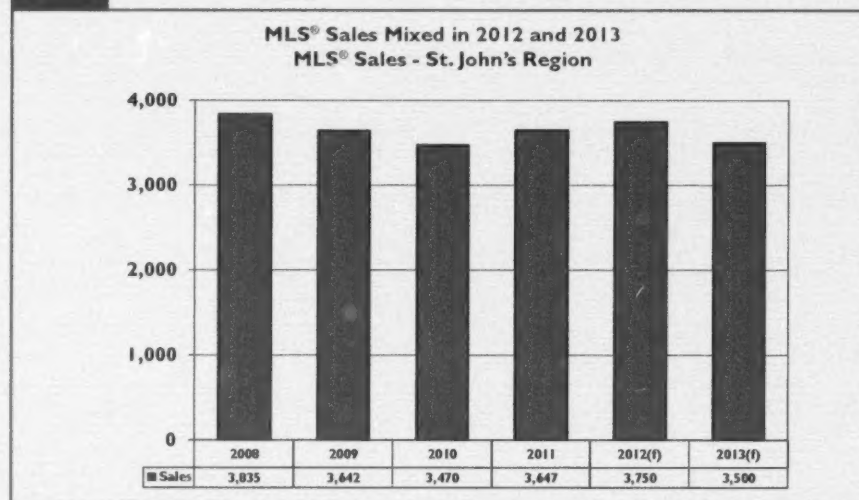
A moderate rebound in 2013 will be driven by further increases in energy, mining and related private sector spending activity. For the province, expect 1.4 per cent GDP growth in 2012 and 1.7 per cent growth in 2013.

Mortgage Rates

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

Figure 2



Source: CREA; Forecast: CMHC

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Note: Eastern Region (St. John's) MLS® data unavailable prior to 2008 calendar year

MLS® Sales Mixed in 2012 and 2013

The St. John's area resale market is expected to post mixed sales activity this year and next. MLS® sales are expected to reach 3,750 units this year compared to 3,647 sales in 2011 before declining in 2013 to 3,500 sales. With new home sales representing about one-third of total MLS® sales, buoyant residential construction activity will support total MLS® sales for the remainder of this year and 2013.

Recent increases in the average MLS® sales price has been driven largely by higher housing starts activity, as well as the trend towards more expensive custom homes among the move-up segment of buyers. With housing demand to remain stable over the forecast period, MLS® sales are expected to remain historically strong despite the forecasted decline for 2013. With only 17 per cent of active listings selling since the beginning of 2012, resale market conditions have

been challenging at times, primarily for sellers. Inventory levels are similar to a year ago, up only two per cent to the end of the third quarter.

With excess inventory in the local resale market and demand for housing moderating, the forecast is for single-digit price growth this year and in 2013. After five years of very strong growth, the average MLS® house price is forecast to end this year at \$280,000, up about four per cent compared to 2011's average of \$268,608. The average price will see marginal growth of about two per cent to \$285,000 in 2013. Move-up buyers' preference for two-storey and custom homes will continue to support prices in this segment over the forecast period, while bungalows, row and semi-detached units will remain appealing for first-time buyers.

Strong Housing Starts Activity

Economic prosperity has supported a preference for newly built higher

end housing throughout the St. John's region in recent years and this trend has influenced the price of new homes. Record new home construction activity expected this year continues to be driven by strength in the local and provincial economies. As a result, additional price growth is expected in the new home market for the remainder of 2012 and 2013. Single-detached new home prices will end 2012 at approximately \$380,000 compared to \$351,305 in 2011. Expect prices to reach close to \$400,000 in 2013, as demand for new homes continues to be driven by large new construction project activity, primarily within the resource sector. Single-detached housing starts are expected to end this year at 1,275 units for the St. John's area, with an additional 1,200 units in 2013.

Solid Multiple Starts Activity

Growing demand from an aging population and a strong rental market will result in increased multiple construction activity over the forecast period. The multiple unit segment of the market is expected to see 800 new units start construction by the end of this year and another 750 units in 2013. High new home prices will contribute to the popularity of new single-detached homes with basement apartments, as some buyers continue to choose to add an income-generating apartment unit to offset mortgage carrying costs.

The pace of development within the mid-priced condo market has increased this year and the rapidly aging population will continue to steer demand towards this market throughout the St. John's area. A common situation for downsizing households is to transition from a family home into a condo without

taking on a new or additional mortgage. Rapid price growth in the condo market, however, has made this move increasingly difficult to achieve. As a result, mid-priced (under \$350,000) condo development is expected to continue to gain traction over the forecast period. Despite the substantial house price growth in this market since 2006, demand for row and semi-detached housing continues to be weak due to buyers opting for two apartment homes.

Total housing starts are forecast to end 2012 at 2,075 units within the St. John's region compared to 1,923 units in 2011. Expect another 1,950 units to start construction in 2013.

Tight Rental Market

The rental market will remain tight this year and next. Economic activity will continue to have a positive impact on the in-migration of younger (age 25 to 34) workers to the St. John's region from other areas of the province and from overseas. Also, house prices will continue to slow the movement of renters to homeownership. Memorial University and local colleges will also continue to draw both local and international students, who rent within the area. Investment in new multi-unit apartment developments has begun for the first time in over 25 years and will slowly increase the supply of apartments this year and next. Accordingly, the vacancy rate for surveyed structures containing three or more rental units (two-apartment homes excluded) is expected to increase marginally to three per cent this year and to 3.5 per cent in 2013. With the vacancy rate remaining low, demand will continue to exert upward pressure on average rents. Expect the average two-bedroom monthly rent to increase to \$780 by the end of this year and to \$800 in 2013.

Forecast Summary St. John's CMA Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS [®] Sales	3,642	3,470	3,647	3,750	2.8	3,500	-6.7
MLS [®] New Listings	5,799	6,332	7,073	7,250	2.5	7,000	-3.4
MLS [®] Average Price (\$)	218,862	251,191	268,608	280,000	4.2	285,000	1.8
New Home Market							
Starts:							
Single-Detached	1,385	1,479	1,304	1,275	-2.2	1,200	-5.9
Multiples	318	337	619	800	29.2	750	-6.3
Starts - Total	1,703	1,816	1,923	2,075	7.9	1,950	-6.0
Average Price (\$):							
Single-Detached	281,803	325,436	351,305	380,000	8.2	395,000	3.9
Median Price (\$):							
Single-Detached	260,000	299,904	321,450	347,750	8.2	361,250	3.9
New Housing Price Index (% chg.)	11.5	5.9	4.0	0.5	-	1.0	-
Rental Market							
October Vacancy Rate (%)	0.9	1.1	1.3	3.0	-	3.5	-
Two-bedroom Average Rent (October) (\$)	677	725	771	780	-	800	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	98,600	100,900	105,400	108,500	2.9	111,500	2.8
Employment Growth (%)	0.0	2.3	4.5	3.3	-	3.5	-
Unemployment rate (%)	8.3	7.7	6.6	7.5	-	7.4	-
Net Migration	2,277	2,719	1,694	1,800	6.3	1,900	5.6

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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